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Restaurant Business

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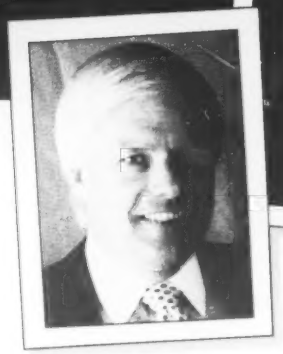
JULY 20, 1988



NORMAN BRINKER
CHAIRMAN AND CEO

RON McDOUGALL
PRESIDENT AND COO

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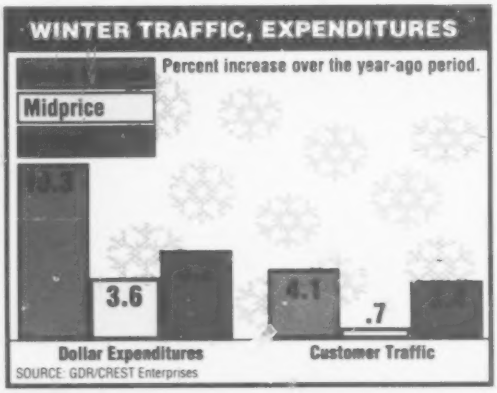
BUSINESS BAROMETER

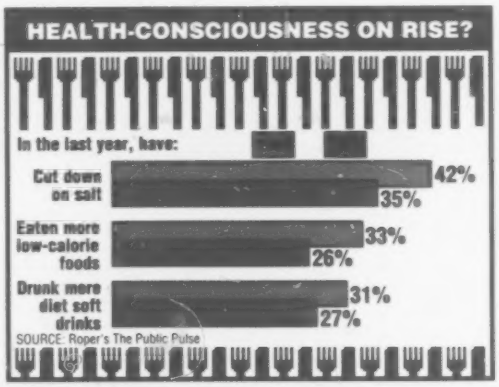
The Hard Facts Shaping Our Industry

By Howard Riell



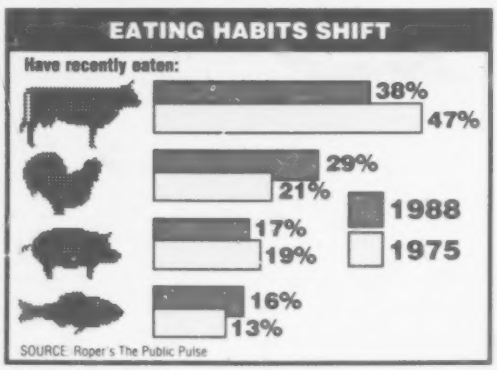
Quick Service Leads In Winter Quarter

Quick-service restaurants outpaced the midprice and upscale segments in both customer expenditures and traffic for the winter quarter, according to just-released figures from CREST, a service of NPD Research. The segment has been leading the industry for several years. The proliferation of takeout, delivery, and drive-thru service—in short, the increased convenience of quick-service dining—plus an increase in discounting have all contributed to the rising numbers. Reports CREST, quick service "enjoyed literally all of the incremental growth in 1987."



More Americans Watching Diets

While fitness fads have faded, they have left a "more balanced approach to a healthy lifestyle," according to Roper's Public Pulse. However, the researchers are quick to point out that there may be a difference between what respondents say and what they do. Their report points to the growth of fast food and the "alleged" rise in snacking as indications that statistics may be misleading. "These developments and others suggest to some that American consumers' lifestyles are reverting to 'bad old ways'."



Foods In And Out Of Favor

Operators, ever vigilant for the slightest additional insight into consumers' changing tastes, should take a close look at two measurements of what people are eating, taken 13 years apart. While beef consumption is shown to have dropped substantially, operators in the highly competitive steak-house segment note that the drop-off has slowed, and may, in fact, be reversing itself. Chicken and fish have undoubtedly gained in popularity, as evidenced by their strong presence on fast-food menus. On the other hand, pork—which operators say is now leaner and lighter than ever before—has reportedly dipped slightly.

CHARTS DESIGNED BY SHARI FANG

RESTAURANT BUSINESS

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Restaurant Business now has available specially prepared reprints of the **1987 RESTAURANT GROWTH INDEX** and the **1988 MAJOR FORCES IN FRANCHISING.** These annual studies are invaluable reference tools.

The reprints are available for $5 per copy. Direct orders and inquiries to: Editor Peter Berlinski, *Restaurant Business* Magazine, 633 Third Avenue, New York, NY 10017.

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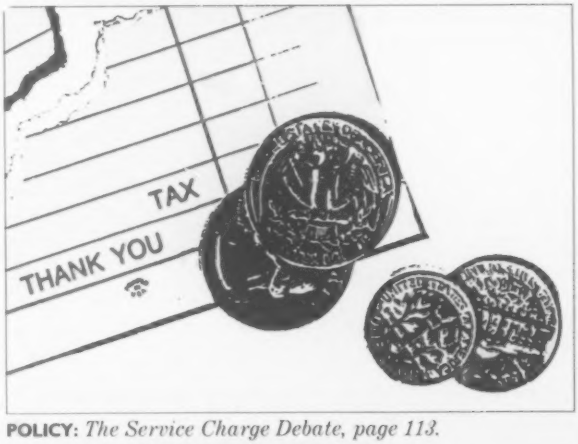

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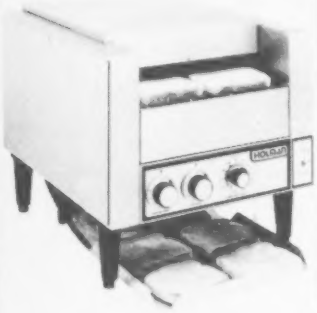

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EDITORIAL STAFF
EDITOR Peter R. Berlinski
EXECUTIVE EDITOR Joan Lang
MANAGING EDITOR Tom Strenk
ASSISTANT MANAGING EDITOR Shelley Wolson
NEWS EDITOR Howard Riell
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BEVERAGE EDITOR James Scarpa
FOOD CONSULTANT Kathleen Kenny Sanderson

WEST COAST EDITOR Kevin Farrell (714) 964-6470
MIDWEST EDITOR James Scarpa (312) 782-1266
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ART ASSISTANT Victoria Kann

COLUMNISTS
Irv L. Blackman, Gen LaGreca
Dr. Joseph Durocher, Karen MacNeil
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Br. Michael Kasavana, Karen Wilk Rubin
Don Shapiro

CONTRIBUTING EDITORS
Carol Casper, James Peters
Jacque White Kochak, Elizabeth Rhein
Sarah Person, Howard Schlossberg

PRESIDENT/GROUP PUBLISHER Jeffrey P. Berlind

Editorial Office
633 Third Ave., New York, NY 10017
(212) 986-4800

Midwest Office
307 N. Michigan Ave., Chicago, IL 60601
312-782-1266

West Coast Office
10540 Talbert Ave., East Tower, Suite 150
Fountain Valley, CA 92708
714-964-6470

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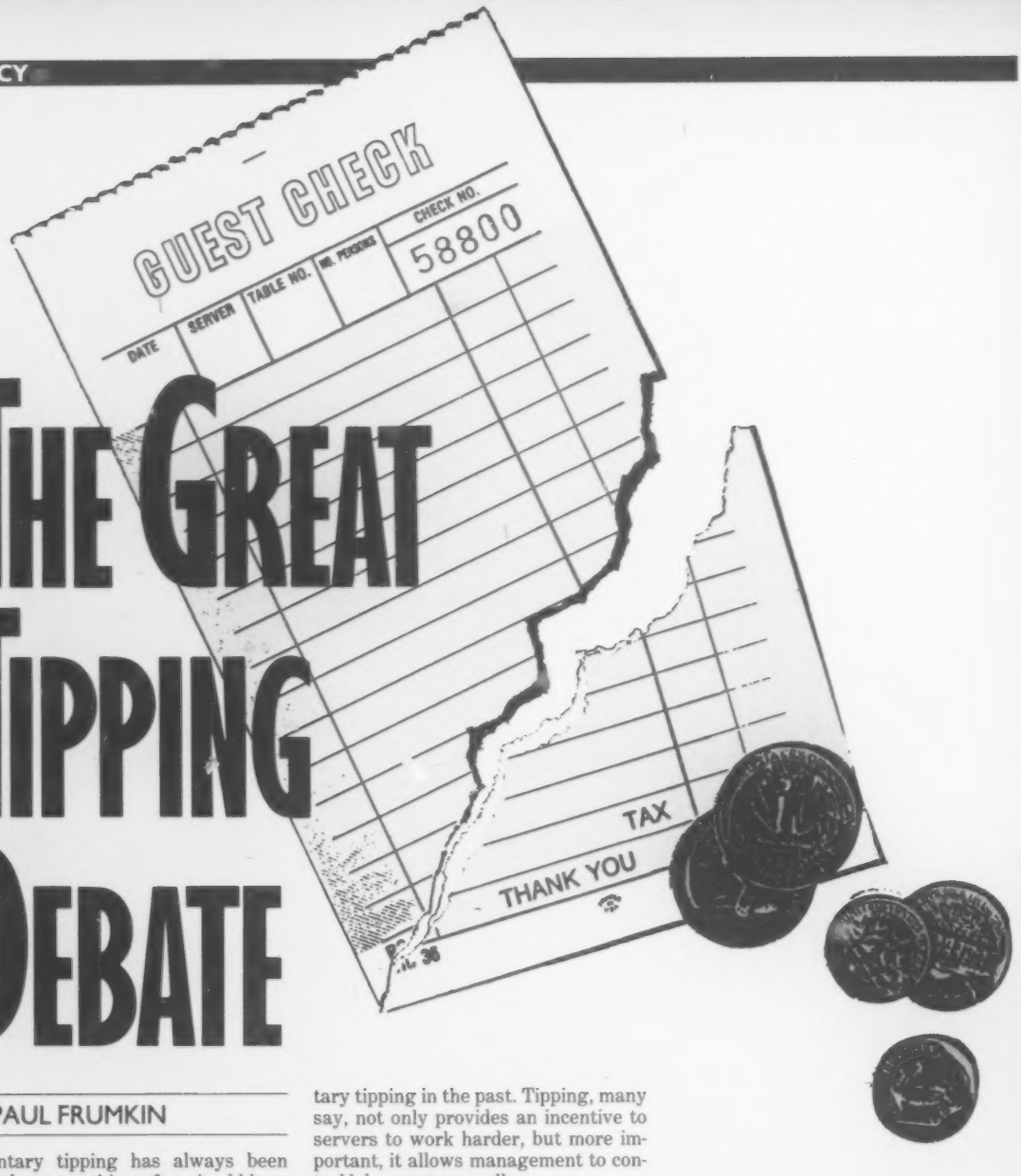

THE GREAT TIPPING DEBATE

BY PAUL FRUMKIN

Voluntary tipping has always been viewed as something of a mixed blessing by restaurateurs. Confused customers are often heard to complain about having to perform the higher mathematics necessary to arrive at the proper gratuity. Is 10% too little? Is 20% too much? What about the maitre d'? The sommelier? The guy who parked the car?

Nor is it so uncommon for an indifferent waiter—who probably earns the bulk of his income from tips—to announce to management in the heat of an argument, "I work for the customer. I don't work for you!"

But despite those and a few other attendant irritations, restaurateurs have largely supported the custom of voluntary tipping in the past. Tipping, many say, not only provides an incentive to servers to work harder, but more important, it allows management to control labor costs as well.

UNDER FIRE. In recent months, however, the tradition of voluntary tipping has come under fire from some operators as something whose time has come and gone. In place of tipping, they would like to see American restaurateurs implement a fixed service charge similar to that used in Europe.

Most proponents of the service charge claim that the need for such a change is the direct result of "oppressive" governmental regulations. They blame tax legislation enacted in 1982, 1984, and 1987, which, respectively, requires operators to monitor employees' tips for the IRS and to pay unem-

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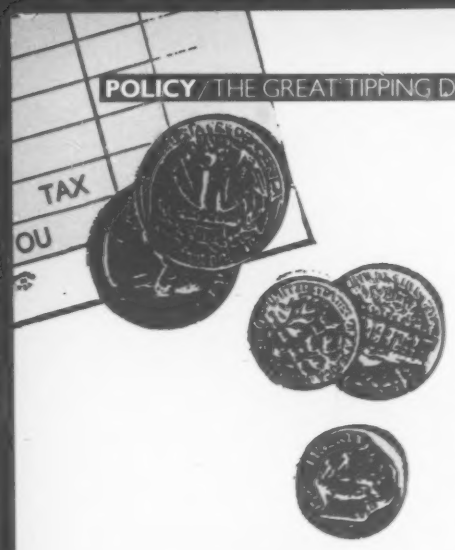
Operators are divided on the issue of tipping vs. the service charge, sparking a superheated controversy.



Most supporters of the service charge claim that the need for one is a direct result of government regulations.

ployment (FUTA) and Social Security (FICA) taxes on tips.

A service charge, they reason, will allow restaurateurs to put their front-of-the-house staff on a fixed salary—and hence avoid having to lock horns with the IRS over potentially inaccurate tip-earnings estimates.

LEGAL LIABILITIES. Len Allison, who implemented an 18% service charge last spring at his New York City restaurant Hubert's, complains that the new FICA legislation passed late last year has made him responsible "for something I had no information on. There was no way I could assess accurately what the tips were. It presented too many legal liabilities to allow me to continue with voluntary tipping."

O. Sigi Krauss, chef/owner of the Briarhurst Manor Inn in Colorado Springs, CO, added a 20% service charge in February because of the added bookkeeping responsibilities. "This is a small business, and I can't afford an accountant," he laments. "All of this government interference makes it so much more difficult just to operate my business. I don't seem to have time to do anything I want to do anymore."

And some restaurateurs don't think their tax law headaches will end here. "The problem is only going to grow because the federal deficit will push the IRS to get even stricter," says Jimmy Schmidt, co-owner of the Rattlesnake Club in Denver. "Eventually, waiters are going to be taxed like everyone else."

But at the same time, a growing number of operators argue that the real attraction of a service-charge system is its capacity for improving service—and for improving the industry's image as an employer. "The real issue here," explains Barry Wine, owner of the Quilted Giraffe in New York City, "is that a service charge allows us to raise the quality of service in a restaurant, and to raise table service to a professional status by paying our waiters a professional salary."

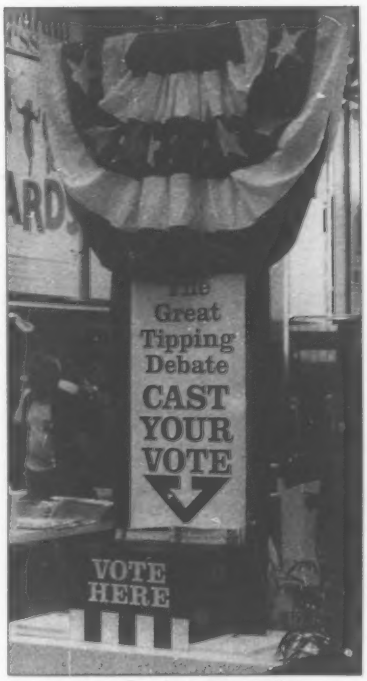
Whatever the reasoning, though, the suggestion that tipping be abolished in favor of a fixed service charge has sparked a heated debate throughout the industry. "I'm opposed to an automatic service charge," declares Richard May, president of specialty restaurants at Gilbert/Robinson in Kansas City, MO. "The guest still wants to have a choice, and I don't blame him. I do too."

May points out that his restaurants attempt to add a 15% service charge to checks for large parties, "and even that doesn't sit well with guests. A service charge will drive our customers away."

And, at least for the time being, May speaks for the majority of the industry. In a recent poll conducted by *Restaurant Business* magazine, approximately three-quarters of those restaurateurs who voted opposed a fixed service charge (see accompanying sidebar). In general, those restaurateurs fear that a service charge will aggravate both their service staff and their customers.

The handful of upscale operators who have switched over to a service charge claim that these fears are groundless. Nevertheless, in a poll published by the Gallup Organization last August, a slim majority—54%—of the 1,007 adults surveyed objected to paying a mandatory service charge in upscale restaurants.

Ted Balestreri, co-owner of The Sardine Factory in Monterey, CA, and former president of the National Restaurant Association, doesn't believe that Americans are ready for a service-charge system either—although he says that the new tax legislation may force him to implement one in the future. "I believe tipping is what the customer wants," he explains. "It's a personal thing between the customer and the waiter. And it also serves as an incentive for the waiter to work harder."



Restaurant Business recently conducted a straw poll of operators. Turn the page for results.

GOOD SERVICE, GOOD TIPS. Don O'Neill, owner of the Spring House restaurant in Pittsford, NY, says that he is also considering adding a service charge, despite the fact that he worries it will destroy his waiters' incentive. "If you give good service, you get good tips," he says.

Some opponents dismiss the well-documented success of restaurants that have been operating with a service charge for years—such as Bern's Steak House in Tampa, FL, and Michael's in Santa Monica, CA. Such upscale operations must be viewed simply as exceptions to the rule, they argue. "Those restaurants are in a special class," May says. "They appeal to one one-hundredth of the dining public. People who go to those restaurants don't care what it costs. They can get away with it."

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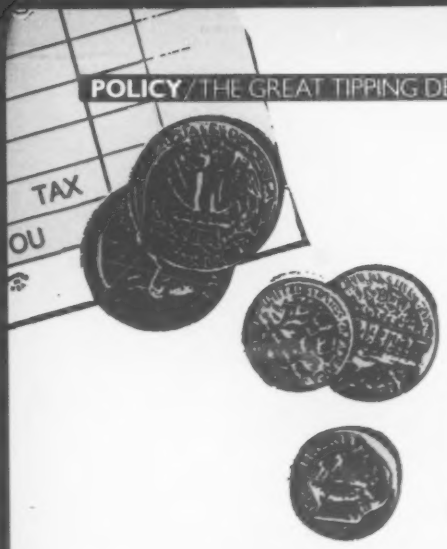


A growing number of operators say that the real attraction of a service charge is improving service.

Barry Wine angrily contends, however, that any debate based on lack of server incentive, customer preferences, or a wealthy customer base is "just a smoke screen. Those are the arguments of people who want to continue allowing their waiters to avoid declaring their full income so the waiters' take-home pay is higher. Waiters' wages, in effect, are subsidized by tax evasion in that system. The restaurateur who makes those arguments fears that if his waiters had to pay all of their taxes, salaries would have to be increased to attract employees.

"The Quilted Giraffe is as expensive as it is in part because it and its employees declare all of their income," he adds.

But whatever the argument, those pioneering operators who have retired tipping in favor of a fixed service charge appear to be pleased with the new system—and, consequently, a growing number of their peers seem willing, at least for now, to give it some serious consideration.

Jimmy Schmidt, who co-owns The Rattlesnake Club in Denver with Michael McCarty, says that ever since they implemented a 17% service charge last November, he's been receiving calls every day from interested restaurateurs. "They all want to know how we did it, and how it's going," he explains.

MISGIVINGS. Schmidt recalls that, at first, he had some misgivings about the change. "I didn't know whether Denver would put up with a service charge or not," he says. "But Michael had been doing it since 1980 (at McCarty's other restaurant, Michael's in Santa Monica), and he knew it would work."

During the first couple of weeks, Schmidt noted a few complaints. But overall, he says, he was amazed at how well it worked. "Once the customers understand, they're very accepting of it."

Krauss agrees, saying that he has only received complaints "officially" from five customers—and in all cases, the complaints were warranted. "So we returned the money," he says. "You have to stay flexible."

The service charge has worked so well in Denver for Schmidt and McCarty, in fact, that they are also using it at their latest Rattlesnake Club in Detroit. Furthermore, they have plans to implement one in the yet-to-open Rattlesnake Club in Washington, DC.

Of course, Schmidt still occasionally receives a complaint at the Denver operation, despite the fact that the restaurant's tipping policy is printed quite clearly on the menu. "The first time a customer complains, we let him off," Schmidt explains. "We treat it the same way we would if it were a complaint about the food or the wine.

"But if it happens a second time—when they already know what our policy is—we're not as flexible," he adds.

But while Schmidt's customers have largely accepted the service charge, a few continue to question the fact that the service charge is subject to state sales tax. "I've heard a few people say that it's against the law," he says. "But I've attempted to explain it to them—and even offered to send them a copy of the law, if they leave their names and addresses."

Complaints about sales tax have not been restricted to the customers at the Rattlesnake Club. According to Len Allison, who implemented a service charge last March at Hubert's, a few customers have commented on the fact that the charge is subject to state tax. "They ask me whether it's my interpre-

continued on page 120

STRAW POLL RESULTS

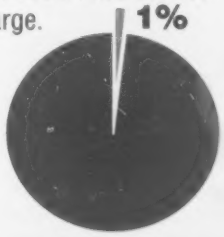
OPERATORS SPEAK OUT

For operators, the issue of voluntary tipping versus a mandatory service charge is a controversial one. Three hundred seventy-five foodservice operators and managers responded to a straw poll conducted by *Restaurant Business* during the National Restaurant Association's Annual Restaurant, Hotel-Motel Show, held in Chicago in late May. Reactions were mixed, and they tended to be strong.

Figure 1

THE SMALL MINORITY

Only a fraction of the country's operators now use a fixed service charge.



CHARTS BY SHARI FANG

"A service charge would make life easier, simpler, and more fair," responded one owner.

"A service charge would tend to take away servers' incentive to give good service," said another.

"It would only work if service charges were used industrywide," was the opinion of many respondents.

What is certain is that the usage of service charges in this country is in its infancy. Less than 1% of poll respondents said they currently use a service charge (see Figure 1), and those that do tend to operate at the upscale end of the price spectrum, or to have signifi-

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STRAW POLL RESULTS *cont.*

cant large-party business. Those operators who do use a service charge report that it falls within 15% to 20% of the check price.

But significantly more respondents told *RB* that they were open to the idea of a service charge, especially those representing more upscale establishments. In fact, 23% of all respondents and 32% of upscale-segment respondents indicated they were not opposed to a fixed service charge (see Figure 2). Moreover, 8% of all respondents and 17% of upscale-segment respondents said they planned to implement a fixed service charge.

Interestingly, independent and chain respondents were fundamentally united in their opinions on the issue; their responses did not vary significantly from each other on any of the questions. The real point of difference occurred with price point.

Not surprisingly, many operators would be more open to the idea of a service charge if a ground swell of support developed in the industry. Forty-two percent of all respondents indicated that they would consider adding a service charge if the majority of operators in their market did so; 54% of upscale-segment respondents felt that way. It seems that, in general, something like half of the poll respondents view the service-charge concept favorably—they just don't want to be the first ones on the bandwagon.

"This is a touchy situation," responded one executive who presently follows a voluntary tipping system but who is not opposed to a fixed service charge. "It could alienate the present staff, and initially customers would be offended, but they would soon accept (a service charge) if it was industrywide."

"The customer must be educated first," noted another executive.

Therein seems to lie the dilemma that the industry now faces: Many operators support the idea of a service charge but are loathe to blaze the trail.

Apparently, some of those respondents who are against the idea of a fixed service charge would change their minds if the rest of the industry did. In fact, a significant minority twenty-eight percent of those respondents who said they were opposed to a fixed service charge indicated that they would consider adopting one if the majority of the operators in their market did so (see Figure 3). Meanwhile, fully 86% of the respondents who said they were *not* opposed to a fixed service charge told *Restaurant Business* that they would go along with their peers if the majority of operators in the market started using a service charge.

Obviously, the industry as a whole has a long way to go before a service-charge system becomes the norm. Operators are concerned about alienating custom-

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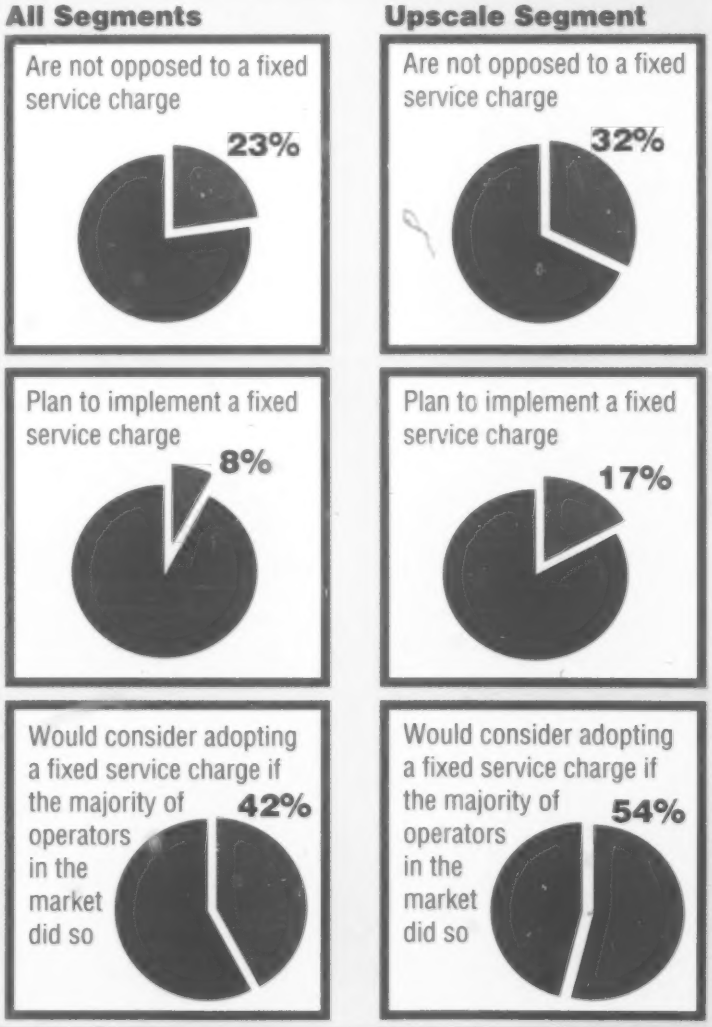
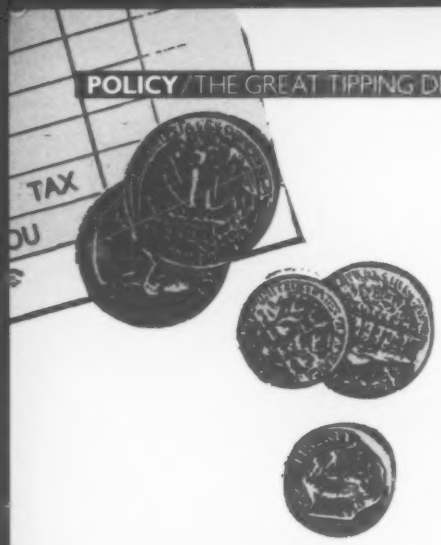
Figure 2

UPSCALE SEGMENT LEADS THE "CHARGE"

Operators of upscale restaurants are far more likely to support the idea of a service charge.


All Segments
Upscale Segment
Are not opposed to a fixed service charge
23%
Are not opposed to a fixed service charge
32%
Plan to implement a fixed service charge
8%
Plan to implement a fixed service charge
17%
Would consider adopting a fixed service charge if the majority of operators in the market did so
42%
Would consider adopting a fixed service charge if the majority of operators in the market did so
54%



Opponents fear that a service charge would alienate both customers and service personnel.

tation of the law, and I try to explain the situation to them. It's a little controversial, but most people finally believe me."

Nevertheless, Allison insists that he is a happy convert. "I'm delighted to have made the change," he says, "and my employees see the reasonableness of it too. Now that they're salaried, they don't have to worry about whether business is bad one night. They don't think they're being hurt at all—and neither is their performance."

Having his waiters on salary has also helped create a sense of teamwork—not only among the waiters, but with the kitchen staff too. "I was unhappy with the relationship between the front and the back of the house," Allison explains. "The fact that the service staff didn't have to declare tips for taxes created some negative feelings. Now everyone is responding positively."

Barry Wine also emphasizes the importance of having a service staff that is on salary. "The atmosphere in the restaurant among employees has dramatically improved," he says. "The service charge has helped to eliminate all of the squabbling that stemmed from waiters operating as independent businesspeople. Now, they no longer fight over a shift or a table or customers. The service charge has resulted in a solid teamwork approach."

The service charge also sends a different signal to customers, Wine observes. "In an upscale restaurant, a service charge eliminates the idea that everyone has his or her palm out. And customers no longer have to wonder whether they left a big enough tip.

"It helps to further the impression that we're here to give the guest a wonderful experience," he adds.

Salaries and benefit programs vary from restaurant to restaurant. At the Quilted Giraffe, Wine starts his waiters at a base salary of $625 per week, while providing medical and dental benefits, as well as paid vacations and sick days.

Waiters can earn more than their base salaries, however. At the end of the week, all sales and service charges are totaled, and if they surpass a certain figure, waiters are given a bonus, according to a percentage determined by a person's seniority and other factors. "Everyone gets a guaranteed base salary," Wine says. "But they can certainly go beyond that, depending on how successful the restaurant is."

The starting salary for a back waiter at Hubert's is about $400 a week, while a front waiter makes about $600. And, as with the Quilted Giraffe, the service staff can earn bonuses if business rises above a certain volume. Additionally, Allison pays for all uniforms and their laundering. He is also examining various health plans for his employees.

The Rattlesnake Club—like Michael's in Santa Monica—pays waiters an hourly wage. A new employee who goes out on the floor as a busser starts at about $6 an hour, while an experienced waiter may be drawing an hourly wage of $12. All employees are reviewed on a monthly basis for increases and promotions. Servers' wages largely compare with those of the kitchen staff, Schmidt says. For example, a headwaiter earns about the same as the sous chef.

"It solves a lot of problems," Schmidt says, "and the incentive to work is still there; in fact, it's better than it was before we added the service charge. The team spirit has gone right through the roof."

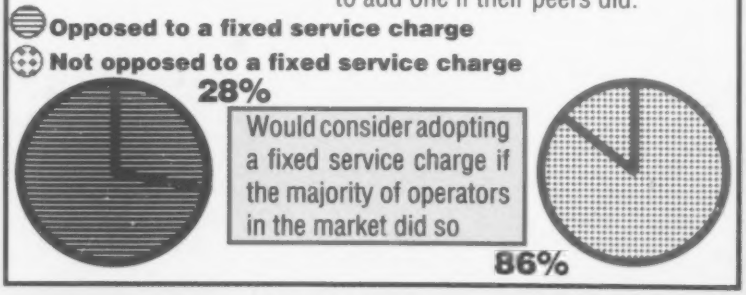
For information on the payroll and tax implications of recent legislation regarding tipped employees, please turn to "The Tax Bite" on page 98.

STRAW POLL RESULTS *cont.*

ers in a competitive environment that is already difficult, and they're concerned about attracting and retaining employees in a tight labor market. Whether or not service charges will be more widely adopted remains, at this point, to be seen.–Joan Lang

Watch for more coverage of this important issue in upcoming issues of Restaurant Business. The legal implications of the controversy will be explored by labor attorney Alfred T. DeMaria in the September 1 issue.

Figure 3 **PRO VS. CON** Operators even those opposed to the service charge, would be more likely to add one if their peers did.


Opposed to a fixed service charge
Not opposed to a fixed service charge
28%
Would consider adopting a fixed service charge if the majority of operators in the market did so
86%

TOP 10 GROWTH COMPANIES

Growth—sales and unit expansion—has never been easy, and that is especially true in today's competitive marketplace. For the larger chains, a certain rate of growth based on sheer momentum is to be expected. For smaller chains, lacking the marketing and real estate clout of the majors, maintaining a growth curve is all the more challenging.

Earlier this year, *Restaurant Business* asked Technomic Inc., a consulting firm based in Chicago, IL, to identify and rank the leading small- and medium-sized growth chains based on dollar growth, percentage increase in sales, and percentage growth in number of units. A total of 52 chains made the grade.

Shown at right are the Top 10 growth leaders. The following criteria were used to define "growth chains":

- Chains are included if they had a nominal growth rate of 10% or more in dollar sales from 1986 to 1987.
- Companies are included if 1987 U.S. systemwide sales were between $33 million and $300 million. Qualifying companies with distinct, separable chains are broken out further at the chain level (e.g., Bay Street is broken out from Pillsbury).
- Franchisees are excluded to prevent double-counting.
- "Chains" are defined as operations with 10 or more units, including concepts, like Restaurants Unlimited.

The growth curves pursued by these chains are as varied as the chains themselves, ranging from Olive Garden's strategy of converting failed and marginal restaurants, to Specialty Restaurants' portfolio of different concepts for different markets. Some companies, such as TCBY, pursue franchising aggressively, while other companies, such as Mrs. Fields, have grown through acquisition.

A complete analysis of the fastest growing small- and medium-sized chains, as identified by Technomic Inc., will appear in the September 1 issue of *Restaurant Business*.

RANKED BY SALES GROWTH

($000,000)

Rank	Chain (Parent)	1987 Sales	1986 Sales	Dollar Growth
1	Olive Garden (General Mills)	$130.7	$ 44.8	$85.9
2	Tony Roma's (Roma Corp.)	200.0	128.5	71.5
3	Chili's	226.1	154.7	71.4
4	Paragon Group	224.9	162.2	62.7
5	Ryan's Family Steak House	185.0	125.0	60.0
6	TCBY	121.2	71.1	50.1
7	Red Robin International	112.0	66.0	46.0
8	Mrs. Fields Cookies (Mrs. Fields)	110.0	65.0	45.0
9	Restaurants Unlimited	80.0	43.0	37.0
10	Specialty Restaurant Corp.	185.0	152.0	33.0

RANKED BY PERCENTAGE GROWTH IN SALES

($000,000)

Rank	Chain (Parent)	1987 Sales	1986 Sales	1986-1987 Growth
1	Olive Garden (General Mills)	$130.7	$ 44.8	191.55%
2	Le Peep Restaurants	24.4	10.5	132.38
3	Bay Street (Pillsbury)	31.0	13.7	126.56
4	Restaurants Unlimited	80.0	43.0	86.05
5	Old Country Buffet (Buffets Inc.)	47.8	27.0	76.89
6	TCBY	121.2	71.1	70.46
7	Red Robin International	112.0	66.0	69.70
8	Mrs. Fields Cookies (Mrs. Fields)	110.0	65.0	69.23
9	Tony Roma's (Roma Corp.)	200.0	128.5	55.64
10	Acapulco (Restaurant Assoc.)	65.9	43.7	50.80

RANKED BY PERCENTAGE GROWTH IN U.S. UNITS

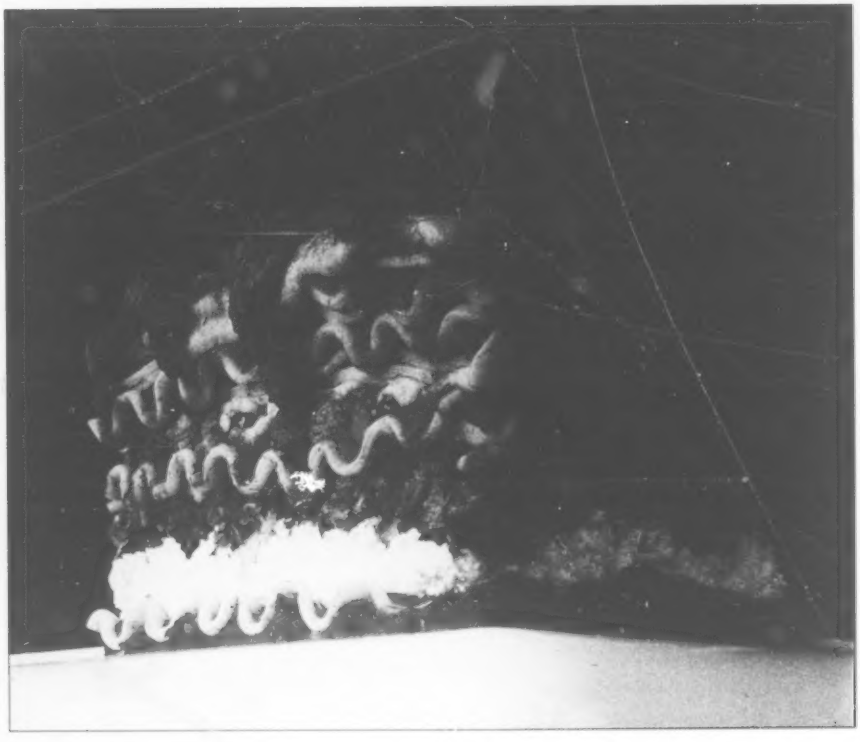
Rank	Chain (Parent)	1987	1986	1986-1987 Growth
1	Restaurants Unlimited	68	18	277.8%
2	Olive Garden (General Mills)	70	30	133.3
3	TCBY	822	458	79.5
4	Le Peep Restaurants	48	28	71.4
5	Bay Street (Pillsbury)	16	10	60.0
6	Old Country Buffet (Buffets Inc.)	36	23	56.5
7	Applebee's (Gourmet Systems)	53	36	47.2
8	Charlie Brown's (Restaurant Assoc.)	34	24	41.7
9	Ryan's Family Steak House	95	70	35.7
10	Sbarro	253	190	33.2

SOURCE: Technomic Inc. and Restaurant Business

MARKET SEGMENT REPORT

ITALIAN

Due to its popularity in this country, the cooking of Italy has had a pronounced influence on all levels of American foodservice.



Dallas-based Spaghetti Warehouse mostly features traditional southern Italian favorites. Dinner checks average $7.50.

BY PAUL FRUMKIN

The great American customer is fickle when it comes to dining out. Culinary trends seem to flare up and burn out at an alarming rate, and restaurateurs serving the hot new cuisine one day may find themselves out in the cold the next.

One of the more notable exceptions to that rule, however, is Italian food. Americans just can't seem to get enough. As a result, the cooking of Italy has a pronounced influence on all levels of the restaurant industry.

This widespread popularity is clearly reflected in the increasing number of Italian restaurants opening around the country. According to Restaurant Consulting Group, based in Evanston, IL, there were 5,142 Italian restaurants in the United States in 1987—a jump of more than 1,000 units from just two years earlier.

A PUSH FROM PASTA. Unquestionably, pasta products have helped to drive this growth. Called the "blue jeans of food" by Los Angeles restaurateur Piero Selvaggio, pasta goes well with anything—from high-fashion ingredients such as white truffles and squid ink to simpler accompaniments like sausage or cheese sauce.

"People are willing to experiment with pasta at an upscale level," says Larry D'Amico, co-owner of D'Amico Cucina in Minneapolis. "But, at the same time, it's still a comfort food."

And largely because of this versatility, pasta sales continue to climb in this country. According to the Arlington, VA-based National Pasta Association, per capita consumption is expected to top 17 pounds this year—an increase of 6% from the 1987 figure of 16.3 pounds. Those figures tend to be even

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At the 17 Grisanti's Casual Italian Restaurants, much of the menu, including prepared-from-scratch sauces, is prepared fresh daily.

In the past two years, the number of Italian restaurants increased by over 1,000 units.

more dramatic when compared with 1975 consumption of only about 11 pounds per person.

HEALTHY. At the same time, Americans concerned with their health are discovering that Italian food—once perceived as being fattening and relatively unhealthy—may constitute one of the more nutritious diets available. Recently, nutritionists have found evidence that the staples of southern Italian cooking—notably pasta, olive oil, onions, garlic, seafood, and leafy green vegetables—may help to reduce the rate of heart disease and cancer.

"The health aspects of pasta and Italian food continue to play well in restaurants," notes John Bierbusse, an investment analyst for A.G. Edwards & Sons in St. Louis.

And clearly, Italian food plays well from a business standpoint as well. While the Italian restaurant segment continues to be dominated by small independent restaurants, some chain players are moving rapidly to stake out a piece of the market.

At the chain level, the major players are Commack, NY-based Sbarro Inc.; OSF International in Portland, OR, which operates the Old Spaghetti Factory chain; General Mills' Olive Garden, based in Orlando, FL; Imasco Inc.'s Grisanti's, in Louisville, KY; Florenz, a subsidiary of the Lexington, KY-based Jerrico Inc.; the St. Louis-based Pasta House; and the Spaghetti Warehouse in Dallas.

"There's tremendous growth potential for chain players out there," says Samuel P. Nelson, vice president of Florenz restaurants. "It's where the Mexican segment was 10 years ago."

QUICK SERVICE. Sbarro Inc., a family-operated chain of cafeteria-style Italian restaurants, is by far the largest chain player in terms of units, with 275 company-owned and franchised stores. For the first quarter of 1988, total sales for Sbarro were $29 million, an increase of more than 35% over the same period last year. While real store sales for the period were up 2% to 3%, much of that increase was due to the opening of 70 new units. The chain has added 24 units already in 1988, and expansion plans call for the addition of another 40 to 50 stores within the year.

Sbarro's positioning sets it apart from the other chains in the segment. Its stores are located almost exclusively in shopping malls. At the same time, Sbarro's limited menu/self-service format offers customers large portions of pizza, pasta, and calzones for under $4 per person.

The number of selections on Sbarro's menu is determined by the size of the restaurant—some pared-down stores located in food courts offer only pizza and calzones. For the most part, though, the full menu includes four types of pizza ranging from $1.35 to $1.85 per slice; five pasta dishes—such as baked ziti, lasagna, and chicken parmigiana with spaghetti—from $2.99 to $3.99; four calzones for $2.79 each; and sandwiches, salads, and desserts.

According to Irwin Protter, Sbarro's director of marketing, pizza and pasta account for about 40% of sales each. Pasta dishes, which are based on family recipes, are cooked fresh on premise, as are the chain's three standard sauces: pizza, ragout, and marinara.

The chain, which began in 1959 as a small family-run Italian grocery store

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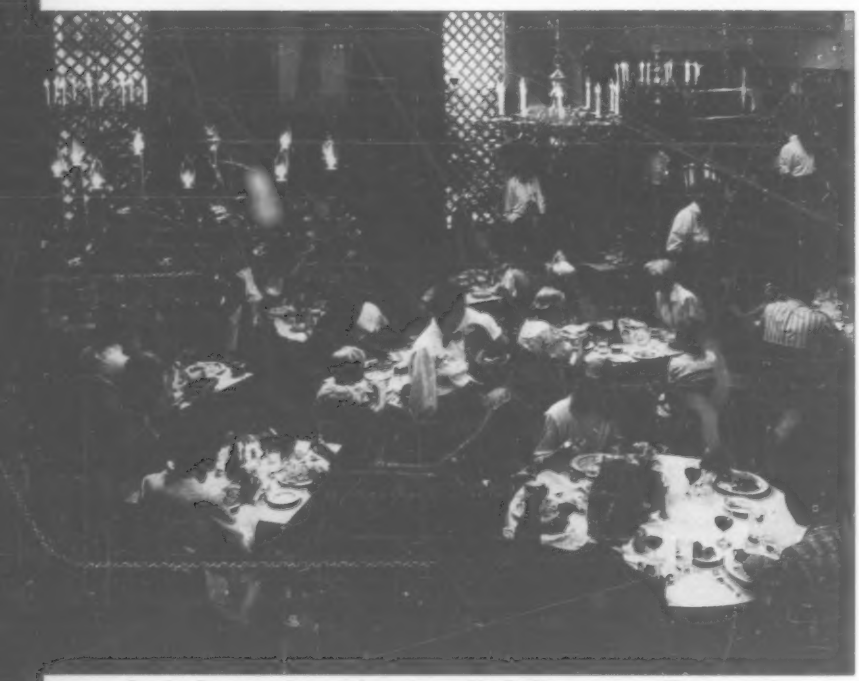

Jerrico Inc. tested several versions of its Italian concept, Florenz, before expanding. It opted for a down-scale, down-sized approach.

In America, Italian food runs the gamut from spaghetti and meatballs to risotto with wild mushrooms.

in the Bensonhurst section of Brooklyn, today has restaurants in 40 states, as well as in the District of Columbia, Puerto Rico, and Canada. Franchisees include the Bethesda, MD-based Marriott Corp., which intends to open 20 Sbarros in its highly trafficked turnpike locations.

ADOPTION. Guss Dussin, the founder of the Old Spaghetti Factory, has said that he doesn't consider his chain an Italian concept. He sees it more as an "American restaurant serving pasta-based specials."

Although the menu offers a few meat selections such as beef tenderloin, sausage, and meatballs, pasta is the chain's mainstay. In fact, spaghetti accounts for more than 50% of OSF's sales. Consequently, food costs tend to be low, at 24% to 26% of sales.

Main dish items include spaghetti served with a choice of mushroom sauce, clam sauce, meat sauce, and browned butter and *mizitra* cheese. A full dinner can range anywhere from $3.85 to $6.50—generating a check average of $6.

The lunch menu, which is available at a limited number of restaurants, includes a pasta salad, sausage sandwich, and tenderloin steak sandwich.

Founded in Portland in 1969 by Dussin, the Old Spaghetti Factory is a privately held company operating 21 restaurants in 12 states. Sales for 1988 are expected to run about $40 million, an increase of $3 million over last year.

A typical Old Spaghetti Factory attracts an average of 5,000 customers each week, although the chain's busiest location in San Diego caters to volumes as high as 9,000 during the peak summer weeks.

Expansion plans for OSF call for the opening of two restaurants every year. OSF doesn't consider franchising an option as a method of expansion in the United States, although family members operate two franchised restaurants in Sacramento, CA. Additionally, there are three franchised restaurants in Japan and one in Germany.

MIDPRICE BATTLE. In the meantime, a full-scale battle is heating up in what has come to be known as the midprice Italian dinner-house segment. After years of eyeing the segment hungrily, a handful of chain players are finally beginning to make their moves.

Unquestionably, the leader of the pack—at least in terms of number of units and total sales—is Olive Garden. Owned by General Mills—which also owns and operates Red Lobster—Olive Garden currently runs 92 restaurants, a figure that has nearly doubled from only one year ago. Moreover, expansion plans call for the addition of another 50 units by next year, and a total of 175 nationwide by 1990.

The company strives to avoid the cookie-cutter image by converting existing restaurants rather than building from scratch. This conversion strategy has helped to keep expansion costs down—the average conversion costs anywhere from $1.2 million to $1.7 million. Buildings range in size from 6,500 sq. ft. to as large as 12,000 sq. ft., with seating running from 170 to 330. Average same-store sales are $2.5 million.

General Mills spent about two years researching the concept before opening the first Olive Garden in 1982, according to spokesperson Anne Powell. Both lunch and dinner menus include a wide range of northern and southern

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Per capita pasta consumption is expected to top 17 lbs. this year, a 6% increase over 1987.

Italian dishes—chosen to appeal to a broad cross-section of the market. All pastas are prepared fresh daily in a display area and are also sold retail, accounting for a small percentage of total sales.

A selection of 14 appetizers and soups includes mozzarella and zucchini ($3.45); seafood pizza ($4.75); pasta *e fagioli* ($2.50); and gazpacho *Italiano* ($2.50). The menu features nearly 30 main dishes such as veal piccata ($11.25); steak Tuscany ($11.75); and shrimp scampi ($11.25).

The lunch menu tends to be somewhat more casual, featuring such items as soups, pasta salads, and hot or cold sandwiches, all priced under $5. Breakfast is also in test in a few units. The average per-person check runs about $8.

EXPANSION. Imasco USA, parent company of Hardee's Food Systems Inc., is also moving gradually into the Italian segment through its wholly owned subsidiary, Grisanti's Casual Italian Restaurants. With 17 restaurants open, Grisanti's is also following a policy of converting existing restaurants. To that end, the chain purchased 19 Casa Lupita restaurants—located primarily in the mid-Atlantic states, the Midwest, and Florida—last year from Ponderosa. According to founder and CEO Michael Grisanti, all Casa Lupitas are expected to be converted by the end of 1989.

Critics often compare Olive Garden's rapid expansion with the much slower pace of Grisanti's. Grisanti, however, has repeatedly emphasized that expansion is less important than maintaining quality. "We will grow as rapidly as we can based on ability to find quality sites and to find quality people," he says.

Grisanti, who also operates two fine-dining restaurants in Louisville, KY—Sixth Avenue and Casa Grisanti—took his time to develop the Grisanti's concept. He opened his first midprice casual Italian restaurant, Mamma Grisanti's, in Louisville in 1976, and experimented for seven years before opening a second in 1983. Explains Grisanti, "We could have grown based on

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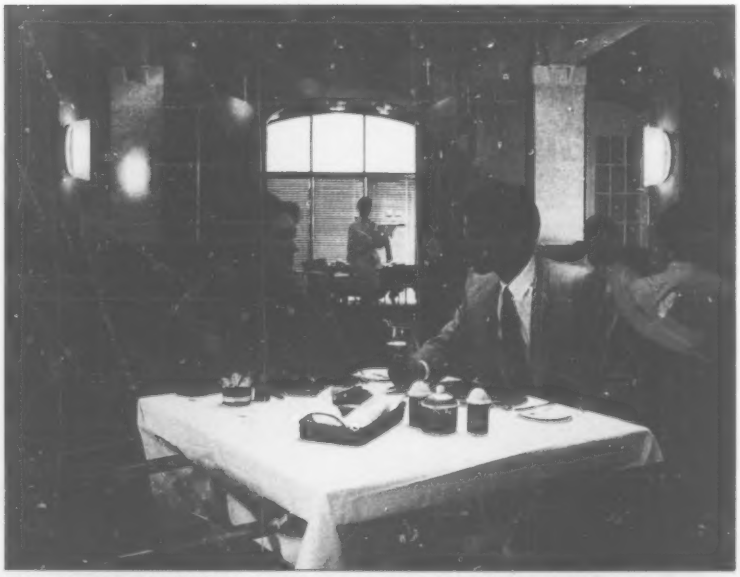
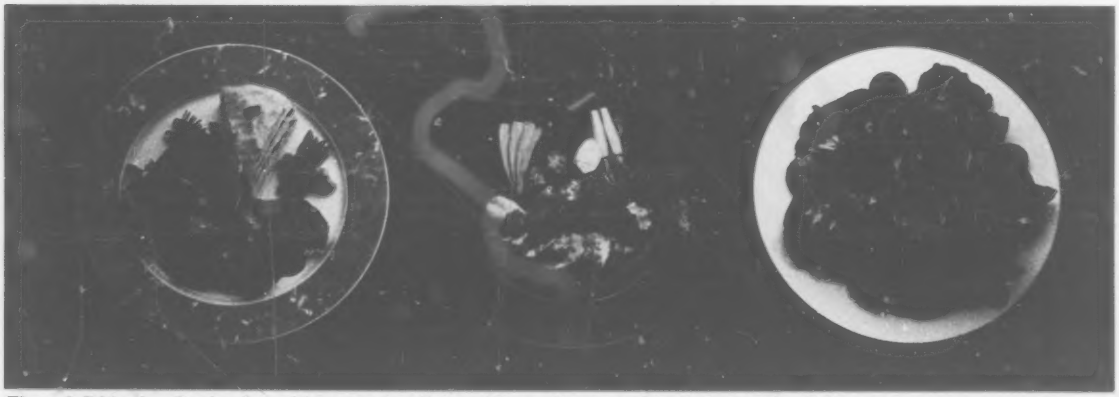


The nine-month-old D'Amico Cucina in Minneapolis seats 150.



Though D'Amico Cucina's cooking uses traditional ingredients and techniques, the dishes are contemporary.

The segment is dominated by independents, but some chain players are staking out a piece of the market.

internally generated profit, but very slowly." As a result, Grisanti merged with Imasco in 1983.

While the Grisanti's target audience is predominantly 20- to 45-year-old white-collar professionals, the restaurant is geared toward children and senior citizens as well.

Much of the menu is prepared fresh daily. All filled pastas—such as cannelloni, ravioli, and manicotti—are made fresh in a display area and retailed in a special section of the restaurant. Sauces are also prepared from scratch.

Grisanti's features 13 appetizers, soups, and salads, and a wide variety of entree selections, including 12 pasta-based dishes, six chicken dishes, two vegetable dishes, five veal and beef dishes, and four seafood dishes. Individual items include chicken *saltimbocca* ($8.50); linguine *primavera* ($6.95); veal Marsala ($10.95); seafood linguine ($9.50); and scallops *Romani* ($8.95). All entrees are served with salad, warm Tuscan-style garlic bread, fresh vegetables, and potato *baci*. An average dinner check ranges from $10 to $12 per person.

The lunch menu offers a lighter array of appetizers, soups, salads, sandwiches, and hot dishes ranging in price from $2.25 to $4.95. A quick-service "Express-O Lunch" is also offered.

MARKET RESEARCH. A third major restaurant chain making a bid for a piece of the Italian segment is Jerrico Inc.—parent of Long John Silver—with its Florenz concept. The first Florenz restaurant was opened in Cincinnati in July 1986, and since then three more units have opened in Aurora, IL, and Louisville and Lexington, KY. Each restaurant varied slightly from the other, allowing Jerrico to test the different ideas.

"After opening the first four, we sat

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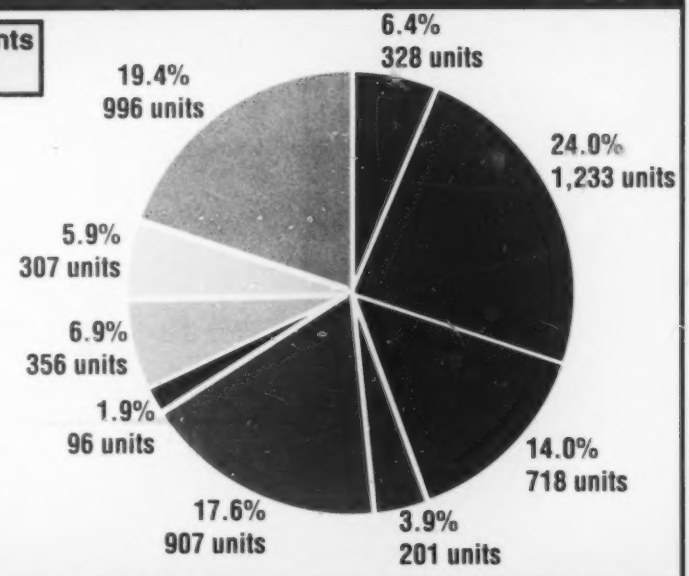
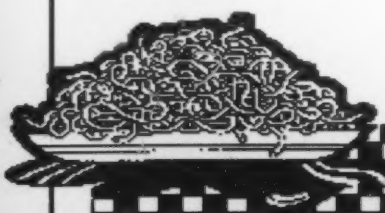
Distribution of Italian Restaurants by U.S. Census Regions

- New England
- Middle Atlantic
- East/North Central
- West/North Central
- South Atlantic
- East/South Central
- West/South Central
- Mountain
- Pacific



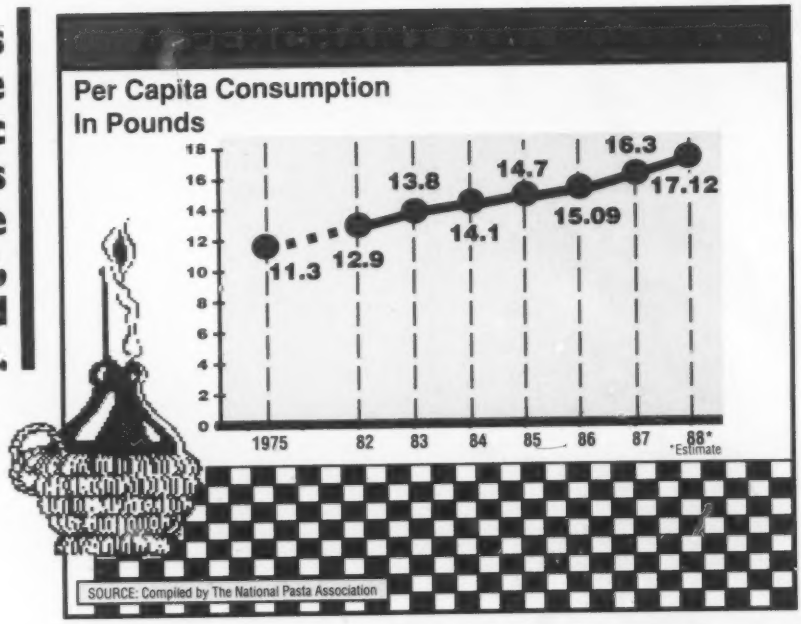


SOURCE: RESTAURANT '87, Restaurant Consulting Group Inc.

Total Italian restaurants: 5,142 units, or 1.5% of total U.S. restaurants

CHARTS BY SHARI LAPKA

Retaurateurs offer more authentic regional dishes to capture sophisticated, well-traveled customers.



back to study the restaurants and do some research," explains Samuel P. Nelson, vice president of Florenz. "Now we're beginning to expand."

Three more restaurants are scheduled to open later this year in Charlotte, NC, Duluth, GA, and Mt. Prospect, IL, and the company expects to open four more during the first half of 1989.

The Old Spaghetti Factory is an "American restaurant serving pasta specials."

Florenz has modified the appearance of its menu, aiming for a slightly more casual approach. The new menu is printed on heavy stock paper, with each selection presented almost as if it had been lettered by hand. All sauces are listed at the bottom of the menu, followed by short descriptions and key ingredients.

Florenzco decided to downsize the Florenz units slightly. Where the original restaurants average about 10,000 sq. ft., the next three sites will run from 7,500 to 8,000 sq. ft. Seating will also decrease from an average of 235 to 200.

The menu features a dozen appetizers and soups and nearly 30 main dishes, including linguini with clam sauce ($7.95); *osso buco* ($9.50); strip steak ($11.95); Italian sausage and chicken ($7.50); and charbroiled halibut with marinara sauce ($8.95). Entrees are served with unlimited helpings of salad and freshly baked breadsticks.

A smaller, more casual lunch menu includes a selection of appetizers, soups, salads, sandwiches, pastas, and hot dishes. Florenz is also testing an express lunch that guarantees the entree will be served within 15 minutes of

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Sbarro Inc., a chain of cafeteria-style restaurants, is by far the largest player in the Italian segment numerically, with 275 units.

In major cities, fine-dining restaurants have opened that specialize in the foods of various regions of Italy.

its being ordered. The average per-person check at lunch runs from $5.50 to $6, while the average dinner tab is $8.50 to $9.50.

Expansion plans call for about 200 Florenz restaurants to be built. Nelson feels that the Italian dinner-house chains are not really competing against one another, but against the well-entrenched independent operators. "But there's certainly room for several players in this segment," Nelson says.

Not everyone, however, agrees with that observation. Kim Tucci, president and co-owner of the 14-year-old Pasta House Company, notes that "things are becoming tight. The segment is closing up."

COMPETITION. In fact, Pasta House recently shuttered two restaurants in Florida—Olive Garden's home state. "Florida wasn't a good move," Tucci says. "Both restaurants were in strip centers, and we just couldn't make an impact against Olive Garden."

Instead, the 21-unit Pasta House is opening a new, larger prototype unit in St. Louis this summer. The new restaurant will be about 8,000 sq. ft. and will seat 240; Pasta House restaurants are traditionally only about 5,000 sq. ft. and accommodate 150 guests. Tucci expects the larger format will boost same-store sales from an average of $1 million to as high as $2 million. Following the completion of the prototype, all existing units—the majority of which are located in the St. Louis area—will be remodeled to the new design.

The company is also investigating opening new stores in the Washington, DC, area, Chicago, and Arizona.

Pasta House's menu includes 12 appetizers, soups, and salads, as well as nearly 40 main dishes and pastas such as chicken *oreganato* ($9.95); tenderloin Marsala ($13.95); and shrimp *Garanzini* ($9.95). Most pasta dishes, which comprise the majority of the main dish selections, are available in two sizes. Pizza and sandwiches are also on the menu. The average per-person lunch check totals $6, while dinner runs about $8 per person. Dinner accounts for about two-thirds of sales.

Although Pasta House grossed about $25 million in 1987, Tucci believes the company would be expanding far more quickly if it had financial muscle behind it. Last fall, Pillsbury came close to purchasing Pasta House, but backed out at the last minute. And, says Tucci, "We're still looking for a buyout."

The Spaghetti Warehouse, founded in 1972, operates 12 restaurants and expects to open two each year for at least the next five years. And since opening its first restaurant in Dallas 16 years ago, the company has watched its sales of Italian food skyrocket. The original Dallas unit grossed about $100,000 in its first year with a menu of predominantly southern Italian dishes. This year, sales at that restaurant, offering largely the same menu, are expected to surpass $4.5 million.

The average Spaghetti Warehouse tends to be larger in size than its competitors. Located in downtown areas, the restaurants average between 13,000 sq. ft. and 14,000 sq. ft., and seat anywhere from 350 to 400 customers. Average same-store sales run slightly below $2 million, and revenues should surpass $21 million in 1988.

The Spaghetti Warehouse also pre-

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fers to convert existing buildings rather than pursue costly new construction. For that reason, restaurant decor and design vary from location to location. A prototype for new construction was built in the Atlanta suburb of Marietta, GA, however, and is under test for future expansion plans. This year, it is expected to gross in excess of $2 million in sales.

The Spaghetti Warehouse offers a few non-Italian dishes like chili, but spaghetti is quite obviously the main attraction. Eleven accompaniments for spaghetti are listed, such as meatballs in tomato sauce, clam sauce, and garlic-butter sauce. Spaghetti dishes range in price from $3.40 to $4.95. Other main dishes include veal parmigiana ($7.95) and Italian sausage ($5.75). The average per person check at lunch is $5; at dinner, $7.50.

COSHOPOLITAN. Growth and change have been no less dynamic at the upscale Italian restaurant level. Encouraged by sophisticated, well-traveled customers who are seeking to broaden their culinary experiences, many restaurateurs are attempting to offer more authentic Italian dishes.

Piero Selvaggio, owner and operator of Valentino and Primi, two highly innovative Italian restaurants in Los Angeles, has observed—and contributed to—the evolution of Italian cooking in this country.

"Pizza and pasta have become staples of our diet," he observes. "But that is only scratching the surface. From there we've begun to move on to more complex dishes, such as *risotto* and *polenta*." For the future, Selvaggio sees the increasing use of fine olive oils, Italian vegetables, and healthier cooking techniques such as grilling, poaching, and steaming. At the same time, he anticipates a return to older, more commonplace ingredients and dishes—but ones that will be viewed in a more contemporary light.

At his 3½-year-old Primi, Selvaggio has begun to offer complete meals featuring these "revisited classics." For example, one complete meal, which offers 10 small tastings for $18 to $20 per person, might include a fish *bracciole* preparation—but one that has been updated. In this instance, a thinly sliced tuna steak is rolled and stuffed with asparagus and scallops, sautéed, then sliced in small medallions and served with sun-dried tomatoes. Selvaggio says that his customers are responding well to Primi's new approach.

General Mills' Olive Garden concept offers a broad range of southern and northern Italian dishes. Pastas are prepared fresh daily in a display area.

In Minneapolis, customers are also responding well to the nine-month-old D'Amico Cucina, according to co-owner Larry D'Amico. D'Amico, who owns and operates the restaurant with his brother, Richard, and Steve Davidson, says that D'Amico Cucina's contemporary approach to Italian dishes and ingredients has generally proved to be successful with both customers and critics. During the month of May, the 150-seat restaurant averaged 100 covers on weekdays and 250 on weekends.

EVOLUTION. While D'Amico Cucina's style of cooking utilizes traditional ingredients and techniques, the dishes tend to be quite contemporary. "The food has evolved," D'Amico says. "We look for a mixture of the traditional and the modern. But we generally cook more by instinct than formula."

Selections include fettucine with goat marscapone, asparagus, and shallots ($7.50); snapper wrapped in egg-

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The popularity of Italian cuisine has been greatly enhanced by a recent perception of healthiness.

Spaghetti Warehouse's prototype unit in the Atlanta suburb of Marietta is expected to gross over $2 million in sales this year.

The Italian segment holds the same growth potential that Mexican food did a decade ago.

plant and served with an eggplant-tomato sauce ($16); pan-fried pork loin with Gorgonzola sauce ($14.50); and arugula with strawberries and black pepper ($6.50). The average per-person check is $18 for lunch, $37 at dinner.

REGIONAL SPECIALIZATION. The demand for a more authentic dining experience at the upscale level has also given rise to segmentation within the Italian restaurant market. In major cities, numerous fine-dining restaurants have opened recently specializing in the foods of a single region of Italy. At the same time, some operators are introducing Americans to the traditional dining styles of Italy.

In New York City, restaurateur Tony May now operates four Italian restaurants—all of them showcasing a different, more personalized aspect of Italian cuisine. La Camelia has the sleek feel of a luxurious Northern Italian restaurant, whereas Sandro's showcases the earthier style of chef and co-owner Sandro Fioriti. The recently opened Palio features the modern and inventive cooking of chef Andrea da Merano. And with the opening of San Domenico, May has now brought *alta cucina*—the cuisine of Italy's aristocracy—to New York.

On the West Coast, San Francisco-based Spectrum Foods Inc., owned by American Restaurant Group, also operates a group of Italian restaurants that vary widely in their atmosphere and menus. The 69-seat Ristorante Chianti in Los Angeles—open since 1938—is an award-winning northern Italian restaurant that offers a variety of homemade pastas and *risotto*, spit-roasted meats and fowl, and grilled fish. Main dishes range in price from $9.50 for *pennette* with garlic, olive oil, and tomato sauce, to $18.75 for a charcoal-grilled loin chop.

Adjacent to Chianti is Chianti Cucina, a bright and noisy 62-seat trattoria, which features a small but daily-changing menu. Selections from Chianti Cucina's menu are slightly less expensive—main dishes range from $11 to $15—and include such dishes as wild boar sausage with polenta and grilled sea bass with sautéed spinach and tomato.

A second northern Italian restaurant concept operated by Spectrum Foods is Prego. Between 1981 and 1986, the company opened three Pregos in California—in San Francisco, Beverly Hills, and Irvine. The trattoria-style concept features Italian pizza bread baked in an oak-burning brick oven, charcoal-grilled fish, and spit-roasted meats and fowl. The restaurants range in size from 115 to 150 seats; the Irvine restaurant includes outdoor seating for 75. Prices and selections vary, but for the most part main dishes range from $8.25 to $16.95.

In general, though, Spectrum Foods' Italian concepts tend to be casual and contemporary. Ciao!, an 85-seat Milanese-style trattoria, opened in 1979 in San Francisco. Since then, Spectrum has also opened Harry's Bar and American Grill (fashioned after the famous Harry's Bar in Florence), Spiedini, Spuntino, and Tutto Bene—all in San Francisco. Spectrum also operates a Harry's Bar in Los Angeles.

But whichever segment one chooses to examine, it is quite apparent that Italian food has leapfrogged over much of the competition into the culinary vanguard. Moreover, it is equally obvious that the clichéd, red-checkered-tablecloth operations are on the wane, supplanted by a new, more exciting style of Italian restaurant in touch with tradition and trends. ■

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